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SUBJECT: Bangladesh Garment Exports Post-MFA

1. Bangladesh Export Promotion Bureau reports that half yearly (January - June 2005) ready made garment (RMG) exports have increased by six percent (from \$3,118 to \$3,302 million) compared to the same period in 2004. These results reflect higher volumes at lower prices and mask variances among RMG sectors.

2. The value of knit RMG exports increased 25% to \$1,420, whereas the woven RMG export decreased by 4% to \$1,781. Knit RMG exports are gaining momentum because backward linkage industries are providing 80% of the raw materials (bypassing Bangladesh's weak and costly port infrastructure), whereas, in the case of woven, it is 30%.

3. Exporters attribute the increase to higher volumes, which have offset a significant drop in FOB prices. Overall, Bangladesh has not yet seen the loss of market share that many had predicted; however, one of the leading RMG exporters recently told the Acting DCM that the lower prices had cut his margins to the minimum. The company is barely surviving, but expects better days in the near future, he said. The Secretary of the Bangladesh Garments Manufacturers and Exporters Association (BGMEA) told the Embassy Economic Specialist that the rumor of safeguards against certain Chinese RMG items is bringing some buyers back to Bangladesh again.

4. Exports of RMG products, which account for over 70% of Bangladesh's total exports, are facing major competition from Chinese products, especially at the low end. Many buyers, however, continue to source from Bangladesh for several reasons: i) buyers want to source from diversified markets to reduce risk; ii) consumers still consider Bangladeshi apparel products a good choice; and iii) manufactures are lowering their prices to meet competition and survive in the market. Moreover, ADB assistance to the current Chittagong port and proposed private operation of the New Mooring container terminal will begin to address infrastructure weaknesses that add to the cost of Bangladesh RMG goods.

5. Comment: Although early results are positive, it is still too early to say how the Bangladesh RMG sector will perform post-MFA over the medium and long term. Thus far, however, industry investment and exporters' efforts to create backward linkages, coupled with competitive pricing and a reputation for meeting social compliance requirements have enabled the industry to hold its own in the new competitive environment. End Comment.

Chammas